

ILLINOIS POWER COMPANY
ILLINOIS COMMERCE COMMISSION
DOCKET NO. 01-0701
DIRECT TESTIMONY OF KEVIN D. SHIPP
APRIL 3, 2002
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DIRECT TESTIMONY OF KEVIN D. SHIPP

APRIL 3, 2002

I. Introduction and Witness Qualifications

1

2 1. Q. Please state your name, business address and present position.

3 A. Kevin D. Shipp, 500 South 27th Street, Decatur, Illinois, 62521. I am the Director
4 of Gas Supply for the Energy Supply Management group (“ESM”) for Illinois
5 Power Company (“Illinois Power”; “IP” or the “Company”).

6 2. Q. Please state your educational background and professional experience.

7 A. I graduated from Millikin University with a Bachelor of Science Degree in
8 Finance in 1984. Since 1985, I have been employed by Illinois Power as a Rate
9 Analyst in the Regulatory Affairs Section of the Company’s Rate Department, a
10 Senior Rate Analyst and Rate Specialist in the Pricing Section of the Company’s
11 Rate Department, Administrator-Regulatory Affairs in the Company’s Regulatory
12 Services Group, Client Services Manager in the Financial Business Group, and
13 Director-Transmission Strategy in the Legal Services department. I accepted my
14 current position of Director of Gas Supply in August of 2001.

15 3. Q. What are your responsibilities in your present position?

16 A. I am responsible for the dispatching of the Company’s gas supply resources,
17 storage facilities, and scheduling gas transmission pipeline capacity.

18 Additionally, gas resource planning and gas storage field engineering support are
19 included in my group.

20 4. Q. Have you previously testified before the Commission?

21 A. Yes. I have testified before this Commission on numerous occasions. Most
22 recently, I testified in the Company's initial delivery service tariff filings in 1999.

23 **II. Purpose and Scope**

24 5. Q. What is the purpose of your testimony in this proceeding?

25 A. The purpose of my testimony is to sponsor the economic analysis relied on, in
26 part, by the Company to make the decision to continue the retirement and
27 dismantling of the Freeburg Propane Plant ("FPP").

28 6. Q. In addition to your direct testimony in IP Exhibit 3.0, questions 1 through 19
29 inclusive, are you sponsoring any other exhibits?

30 A. Yes. I am sponsoring IP Exhibit 3.1, which was prepared under my supervision
31 and direction. In addition, I am presenting IP Exhibit 3.2, which is a copy of a
32 letter to the Commission from the Village President of the Village of Freeburg
33 relating to the FPP.

34 **III. Freeburg Propane Plant**

35 7. Q. What is the Freeburg Propane Plant?

36 A. The FPP is an aboveground liquid propane storage facility with a capacity of
37 800,000 gallons of liquid propane located approximately 2.5 miles from the
38 village of Freeburg, Illinois. The FPP was placed in service in 1971. It is the last

39 of five such propane facilities that IP once operated to provide additional peaking
40 capacity to serve its customers under certain peak day conditions.

41 8. Q. Was the FPP utilized by the Company to meet its planned peak day requirements
42 during the reconciliation period?

43 A. No, output from the FPP was not a planned resource during the reconciliation
44 period. The Company decided in April 2000 to retire the FPP.

45 9. Q. What considerations led to the Company's decision to retire the FPP?

46 A. The decision to retire the Freeburg Propane Plant was driven by numerous
47 considerations including its age, the fact that it was IP's last propane plant, safety,
48 reliability, the need for capital expenditures on the facility, future capital and
49 O&M requirements, the trend of development in the area, and the availability of
50 pipeline transportation to replace the capacity of the FPP. All of these factors
51 were discussed extensively in Docket 00-0714, IP's PGA reconciliation case for
52 2000, and were described in the Commission's order in that Docket.

53 As the Company has indicated previously, one of its principal concerns in
54 deciding to retire the FPP was its responsibility for the safety of this facility. Over
55 800,000 gallons of liquid propane (approximately 90 tanker trucks full) would
56 have to be delivered to and stored at the FPP, just to provide sufficient inventory
57 for three days of expected operations. The growth and development of the
58 communities of Freeburg and Smithton and the surrounding areas, over the past
59 30 years, as well as the likelihood of continued growth in and around these
60 communities, has brought development closer and closer to the FPP. The

61 Company believes that continuing to operate a facility such as the FPP, with
62 above-ground storage of 800,000 gallons of a volatile, flammable substance, as
63 residential and commercial activity continues to grow in the surrounding area,
64 does not make good sense. This is particularly true since these concerns can be
65 alleviated by retiring the FPP and using pipeline transportation contracts to
66 replace the capacity the FPP once provided.

67 Additionally, the Company was aware of several pending capital expenditures,
68 which would be necessary in order to continue to operate the FPP in a safe and
69 reliable manner. For example the FPP has obsolete compressor controls and
70 switchgear, it needed a new glycol heater and new pumps for the vaporizer feed,
71 and the insulation on the aboveground storage tank is in need of replacement.
72 Additional renovations that would have been required within the next few years,
73 if not immediately, included replacement of the condenser, cooling fan and
74 collector tank, insulation of the 90,000 gallon transfer tank, and replacement and
75 upgrades of valves and piping.

76 10. Q. During 2001, did the Company conduct any additional analyses to evaluate
77 whether the Freeburg Propane Plant should be restored to service?

78 A. Yes. The Company retained Washington Group International ("WGI") to
79 conduct a life extension study of the FPP and estimate the equipment upgrades
80 and replacements (which the Company began estimating as early as 2000) that
81 would be needed in order to continue to operate the FPP into the future, along
82 with estimates of the required capital expenditures. Second, using the cost

83 information supplied by WGI, IP conducted present value of future revenue
84 requirements (“PVRR”) analyses comparing the PVRR associated with restoring
85 the FPP to service and resuming its operations, to the cost of other options to
86 replace the lost capacity of the FPP.

87 11. Q. Does the Company believe that a PVRR analysis was necessary to determine
88 whether or not to retire or continue to operate the FPP?

89 A. No, IP continues to believe that retirement of the FPP was appropriate based on
90 the factors I summarized in my answer to Question 9, which were discussed at
91 length in the 2000 reconciliation proceeding, such as the age of the facility, safety
92 and reliability considerations, the need for capital expenditures both immediately
93 and in the future, the trend of development in the Freeburg area, and the fact that
94 the same capacity can be obtained through pipeline firm transportation (“FT”)
95 capacity contracts with greater flexibility, reliability and convenience. However,
96 IP commissioned the WGI study and performed the PVRR analyses I am
97 presenting in this case based on the Commission’s determination in the 2000
98 reconciliation case that PVRR studies should be performed.

99 12. Q. What was the purpose of the study completed by WGI?

100 A. The Company requested WGI to look at the repairs, replacements and upgrades
101 that would need to be made to the FPP to continue to operate it for another 15 to
102 30 years, through the identification of capital expenditures necessary to (1)
103 maintain the safety and reliability of the FPP, (2) bring the FPP into compliance

104 with applicable current codes and standards as necessary, and (3) replace worn
105 out or obsolete equipment.

106 13. Q. What were the results of the study?

107 A. WGI recommended that expenditures would be necessary in a number of areas,
108 such as Fire Protection, Plant Security, Processes, Mechanical, Electrical, and
109 Instruments and Control, to bring the plant into what WGI considered a safe and
110 efficient operating mode in compliance with current codes and standards. WGI
111 estimated that the capital expenditures required to implement their recommended
112 actions would be more than \$6 million.

113 14. Q. What is IP Exhibit 3.1?

114 A. IP Exhibit 3.1 is a summary of the two PVRR analyses the Company performed
115 to determine the PVRR of returning the FPP to service versus keeping it retired
116 and continuing to replace its capacity with firm pipeline transportation capacity.

117 15. Q. Please summarize the principal assumptions used in the PVRR analyses.

118 A. The principal assumptions utilized in the PVRR analyses summarized on IP
119 Exhibit 3.1 are as follows:

- 120 • 15-year and 30-year time periods
- 121 • The capital expenditures recommended in the WGI study were used
- 122 • A seasonal FT contract for 20,000 MMBtu per day for the five winter
123 season months of November through March beginning at a cost of
124 \$800,000 in the first year, based upon information provided by pipelines,
125 to replace the capacity of the FPP

- 126 • A 2.85% annual inflation rate (the same assumption used by the
127 Commission Staff in Docket No. 00-0714)
- 128 • A return on investment of 9.29% (the Company's allowed rate of return
129 on gas rate base established by the Commission)
- 130 • Propane inventory costs beginning at \$192,000 annually, based on the
131 cost of maintaining inventory for six months at current propane prices
- 132 • Annual O&M expense associated with the running of the FPP beginning
133 at \$35,000 annually (the same assumption used by Commission Staff in
134 Docket No. 00-0714)
- 135 • IP A&G loadings of approximately 34.88%
- 136 The PVRR model utilized by the Company to produce the results shown on IP
137 Exhibit 3.1 is the model provided by Staff witnesses for this purpose, and used by
138 the Company as well, to perform the PVRR analyses relating to the FPP
139 retirement in Docket No. 00-0714.
- 140 16. Q. Has IP in fact been able to purchase seasonal FT contracts from its pipelines?
- 141 A. Yes. IP secured 25,000 MDQ of FT capacity on Natural Gas Pipeline Company
142 for the five winter months, November 2001 through March 2002. In addition, IP
143 entered into a contract in March 2001 for winter season FT on Panhandle Eastern
144 Pipeline Company that is 105,000 MMBtu/day more than is held during the
145 summer months.
- 146 17. Q. What do the PVRR analyses show?

147 A. The PVRR analyses show that the PVRR to restore the FPP to operation and
148 place it into a condition to operate for another 15 to 30 years [for the Base Life
149 Scenario, see IP Exhibit 3.1] far exceed the PVRR to keep the FPP retired and
150 replace its capacity with pipeline FT capacity. For the 15-year period, continuing
151 the FPP in a retired state has a lower PVRR than returning it to operation, by
152 more than \$8.5 million. For the 30-year period, continuing the FPP in a retired
153 state has a lower PVRR than returning it to operation by more than \$7 million.
154 Thus, the PVRR analyses support the Company's decision not to return the FPP
155 to service.

156 18. Q. Has there been local interest in the Freeburg area as to whether the FPP should be
157 retired?

158 A. Yes. For example, IP Exhibit 3.2 is a copy of a letter from the Freeburg Village
159 President to the members of the Commission and the Executive Director,
160 indicating support for retirement of the FPP based on concerns relating to safety
161 and the impacts of the plant's continued existence on prospects for development
162 in the area.

163 19. Q. Does this conclude your prepared direct testimony?

164 A. Yes, it does.
165

ILLINOIS POWER COMPANY
PRESENT VALUE REVENUE REQUIREMENT SUMMARY
FREEBURG PROPANE PLANT LIFE EXTENSION

<u>Analysis (1)</u>	<u>Net Present Value</u>
Seasonal FT Contract - 30 years	\$11,510,425
Seasonal FT Contract - 15 years	8,438,724
Base Life Extension - 30 years (2)	18,985,395
Base Life Extension – 15 years (2)	17,057,838
Base Plus Life Extension – 30 years (3)	20,397,030
Base Plus Life Extension – 15 years (3)	18,333,869

Footnotes:

- (1) Discount Factor = 9.29%; Inflation Rate = 2.85%; Seasonal FT Initial Contract Price = \$800,000; Book Depreciation life = 46 years; Initial Propane Inventory Value = \$192,000; initial O&M Expense = \$35,000 and; IP A&G Loading = 34.88%.
- (2) Capital expenditures as provided by WGI Freeburg Propane Plant Life Extension Study.
- (3) Expenditures included in Base Life Scenario plus expenditures associated with new truck scales, propane load out facilities and replacement of vaporizers.

VILLAGE PRESIDENT
Allen L. Watters

VILLAGE CLERK
Mary Grau

VILLAGE TRUSTEES
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Stan Koerber
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February 15, 2002

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Ronald Dintelmann

OFFICE MANAGER
Billie Louthan

POLICE CHIEF
Melvin E. Woodruff, Jr.

VILLAGE ATTORNEY
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The Honorable Scott Wiseman
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

RE: SUPPORT OF ILLINOIS POWER'S DECISION TO CLOSE THE FREEBURG
PROPANE FACILITY

Dear Honorable Wiseman:

It is my understanding that Illinois Power's recent decision to retire the Freeburg Propane Facility is being re-visited based upon the Illinois Commerce Commission's finding regarding such action. With this letter, I voice my support of the proposed removal of the Illinois Power Propane facilities south of Freeburg. It is our belief that having such facilities creates unneeded safety issues which directly affect my community's economic development activities. My opinion is based on the following:

1. The Village of Freeburg has plans to grow along all major traffic arteries including those heading south of town. While the Village has established an industrial-commercial park to the south of town, economic development (both residential and commercial) has been sluggish in that area.
2. Other communities in the area, such as nearby Smithton, have been residential growth along the southern traffic routes to their community. Smithton lies approximately five miles to the west of Freeburg (along Route 159). Development of new (upscale) subdivisions extend south of Smithton to well south of Robinson School Road. Robinson School Road extends eastward and turns into Blacksmith Shop Road, which enters Route 13 across from the Illinois Power Propane storage facility. It is interesting to note that Smithton is seeing strong development to the south of their community while the Village of Freeburg is not. I propose that

one major difference between the two areas (south of Smithton and south of Freeburg) is that the Freeburg properties have the negative attribute of being nearer to the propane facility. The other differences would be that the Freeburg properties (south of town) would have the added advantage (over the properties south of Smithton) of being closer to a community high school, fast food restaurants, gas station and a grocery store.

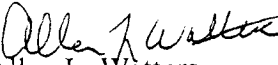
3. An economic development representative from the Illinois Municipal Electric Agency has told us a propane storage facility is a negative attribute for economic development. Their feeling is that residential development would be the most severely impacted by the presence of a propane storage facility.

Other Issues:

It is my understanding that this facility had a lightning related fire in the mid-1980s. While the fire was quickly brought under control, it shed light on the potential for disaster at such a facility. While lightning arresting equipment reduces the exposure for lightning, it does not protect the facility from the effects of tornadoes, rail accidents, or terrorist activities. Each event, while having little probability of occurring, would have dramatic and devastating results if it occurred.

Because of the potential safety issues and the drag on economic development produced by this operation, I would recommend to Illinois Commerce Commission officials that they support the prudent closure of this propane facility.

Sincerely,


Allen L. Watters
Village President

ALW:bml

cc: Mr. Larry Altenbaumer
Ms. Kathy Patton
Mr. Shawn Schukar
Ms. Jackie Voiles
Mr. Ronald D. Earl